FIRST PRINT

CO-OPERATIVES (AMENDMENT) BILL 1994

NEW SOUTH WALES



EXPLANATORY NOTE

(This Explanatory Note relates to this Bill as introduced into Parliament)

The object of this Bill is to amend the Co-operatives Act 1992 as follows:

- (a) New provisions of the Corporations Law dealing with the appointment of external administrators are applied to co-operatives, with certain modifications. Consequential changes are made to provisions dealing with official management (which is now obsolete). Modifications allow the Registrar to appoint an administrator for the purposes of the applied provisions of the Corporations Law and provide that the administrator need not be a registered liquidator. The Bill also applies new provisions of the Corporations Law allowing for the reciprocal application of orders in other jurisdictions concerning the administration or winding up of co-operatives. (Schedule 1 (1) (a), (4), (7), (16)-(19), (24), (25), (26))
- (b) An existing provision of the Act which disapplies the Corporations Law to co-operatives is amended to make it clear that the provision does not prevent Parts 7.11 and 7.12 of the Corporations Law (containing requirements relating to issues of securities such as prescribed interests) applying to co-operatives, other than in relation to shares in, debentures of, deposits with, or CCU's issued by a co-operative. This will confirm the existing view that the Corporations Law applies to the issue of prescribed interests by co-operatives. (Schedule 1 (3))
- (c) Requirements relating to the requisitioning of general meetings of a co-operative are altered so that a general meeting will be able to be convened on the requisition of 50 members or any members who are together able to cast 20% (rather than 5%, as is presently required) of the total votes able to be cast at a meeting of the co-operative. (Schedule 1 (5))
- (d) The existing requirement that a director's resignation does not take effect until 1 month after notice of resignation is given is altered so that a resignation can take effect immediately. (Schedule 1 (6) (b))

- (e) New provisions of the Corporations Law relating to insolvency are applied to co-operatives. At present, the Act applies to co-operatives provisions of the Corporations Law providing for the duties of officers of a company when the company is trading while insolvent. These provisions (in particular section 592 of the Corporations Law) have been amended and substantially replaced by Part 5.7B of the Corporations Law. The proposed amendments apply these new provisions of the Corporations Law. Consequential savings and transitional provisions are enacted to save the operation of the now defunct provisions of the Corporations Law that are applied by the current provisions of the Act until the application of the new provisions commences. (Schedule 1 (8), (17) and (26)—proposed clause 16 of Schedule 6)
- (f) The Bill will require a co-operative to lodge annual returns within 4 months after the end of the financial year of the co-operative, instead of at least 14 days before the annual general meeting of the co-operative as at present. (Schedule 1 (9))
- (g) The Bill will remove an existing provision that prevents a co-operative from obtaining financial accommodation, or giving security in connection with obtaining financial accommodation, unless authorised by its rules to do so. The existing power for the regulations to impose restrictions or requirements on co-operatives in relation to the obtaining of financial accommodation is retained. An existing provision dealing with the legal capacity of co-operatives is amended to make it clear that the provision is subject to the regulations (and not just the Act). A consequential change is made to the provision dealing with the contents of the rules of a co-operative to remove a provision that is inconsistent with the existing abolition by the Act of the doctrine of ultra vires in relation to co-operatives. Consequential changes are also made. (Schedule 1 (2), (10), (12) (a) and (23))
- (h) An existing provision of the Act which adopts Part 7.12 of the Corporations Law is amended to make it clear that those provisions are adopted only for the purposes of applying to the issue of debentures of a co-operative. This does not prevent the Corporations Law from applying of its own force to prescribed interests issued by a co-operative, as referred to above. It will also be made clear that the adopted provisions do not apply to compulsory loans by members under section 268 of the Act. The existing provision is further amended to apply Part 7.11 of the Corporations Law (dealing with unlawful conduct in relation to the issue of securities) to the issue of debentures of a co-operative. (Schedule 1 (11))
- (i) An existing provision that allows a co-operative to raise money by requiring members to lend money to the co-operative is amended to require a co-operative proposing to raise funds in this way to issue a disclosure statement, approved by the Registrar, setting out how the funds raised are to be used, the total amount of the loan to be raised and the basis on which the contribution of each member is to be calculated. This is similar to the disclosure statement required in relation to a proposal by a co-operative to raise funds by requiring members to take up or subscribe for additional shares. (Schedule 1 (12) (b))

- (j) The Bill will make it clear that the holders of CCU's issued by a co-operative rank in accordance with the terms of issue of the CCU's for priority of payment of capital and interest in a winding up and that the terms of issue can provide for a ranking anywhere from behind contributories (shareholders) up to and including equality with other creditors. (Schedule 1 (13) and (14))
- (k) The existing provision of the Act which applies the winding up provisions of the Corporations Law is amended to make it clear that the applied provisions are to be read subject to specific provisions of the Act which deal with the liability of members of the co-operative. (Schedule 1 (15))
- (1) An existing evidentiary provision of the Act will be expanded to allow the Registrar to give certificate evidence as to whether or not a requirement of the Act has been complied with within a specified period or by a particular date (whether or not that requirement relates to a function of the Registrar). (Schedule 1 (20))
- (m) The Bill inserts additional provisions with respect to the interpretation and application of provisions of the Corporations Law adopted by the Act. For example, definitions in relation to adopted provisions are to be read as if they formed part of the Act and regulations and penalties made under an adopted provision are to be read as forming part of the Act. The amendment makes it clear that applied provisions of the Corporations Law are applied as in force from time to time. (Schedule 1 (21) and (22))
- (n) Consequential savings and transitional provisions are enacted. An additional transitional provision is added to the original transitional provisions of the Act to make it clear that the Registrar can exercise functions in relation to defunct co-operatives even if they became defunct under the Co-operation Act 1923, which is now superseded. (Schedule 1 (26))
- Minor or consequential amendments are also made. (Schedule 1 (1) (b), (6) (a))

Clause 1 specifies the short title of the proposed Act.

Clause 2 provides for the commencement of the proposed Act on a day or days to be appointed by proclamation.

Clause 3 is a formal provision giving effect to the Schedule of amendments to the Co-operatives Act 1992.

Schedule 1 contains the amendments to the Co-operatives Act 1992 described above.



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CO-OPERATIVES (AMENDMENT) BILL 1994

NEW SOUTH WALES



TABLE OF PROVISIONS

Short title
Commencement
Amendment of Co-operatives Act 1992 No. 18

SCHEDULE 1-AMENDMENTS



CO-OPERATIVES (AMENDMENT) BILL 1994

NEW SOUTH WALES



No. , 1994

A BILL FOR

An Act to amend the Co-operatives Act 1992 to make further provision with respect to the application of provisions of the Corporations Law to co-operatives, the obtaining of financial accommodation by a co-operative, requisitioning of general meetings and annual returns of co-operatives; and for other purposes.

The Legislature of New South Wales enacts:

Short title

1. This Act may be cited as the Co-operatives (Amendment) Act 1994.

Commencement

5 2. This Act commences on a day or days to be appointed by proclamation.

Amendment of Co-operatives Act 1992 No. 18

3. The Co-operatives Act 1992 is amended as set out in Schedule 1.

SCHEDULE 1—AMENDMENTS

(Sec. 3)

(1) Section 5 (**Definitions**):

- (a) From the definition of "officer" in section 5 (1), omit paragraphs (c)-(f), insert instead:
 - (c) a receiver and manager, appointed under a power contained in an instrument, of property of the co-operative; or
 - (d) an administrator of a deed of arrangement executed by the co-operative; or
 - (e) a liquidator or provisional liquidator appointed in a voluntary winding up of the co-operative; or
 - (f) an administrator of the co-operative appointed under Part 5.3A of the Corporations Law as applying under this Act or Division 6 of Part 12 of this Act; or
- (b) After section 5 (3), insert:

(4) Notes included in this Act are explanatory notes and do not form part of this Act.

(2) Section 33 (Legal capacity):

In section 33 (2) (a), after "this Act", insert "and the regulations".

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SCHEDULE 1—AMENDMENTS—continued

- (3) Section 44 (Application of Corporations Law):
 - (a) Omit section 44 (2) (a), insert instead:
 - (a) relate to any other matter that the regulations provide is not to be excluded from the operation of the Corporations Law; or
 - (b) At the end of section 44 (2) (f), insert:

; or

- (g) relate to securities of a co-operative (other than shares 10 in, debentures of, deposits with, or CCU's issued by a co-operative).
- (c) Omit section 44 (3)-(6), insert instead:

Note. This section limits the operation that the Corporations Law would otherwise have had in relation to co-operatives.

15 (3) To remove doubt it is declared that subsection (1) does not operate to exclude the operation of Parts 7.11 (Conduct in relation to securities) and 7.12 (Offering securities for subscription or purchase) of the Corporations Law (except in relation to shares in, debentures of, deposits with, or CCU's issued by a co-operative).

(4) This section does not operate to give rise to any operation of that Law, and does not confer any function under that Law, which that Law would not otherwise have or confer of its own force.

(5) The regulations may apply a provision of the Corporations Law to co-operatives, with or without specified modifications, and a provision so applied has effect as part of this Act and is to be read as forming part of this Act.

(6) Other provisions of this Act (for example section 266) which apply provisions of the Corporations Law to co-operatives operate to apply those provisions as part of this Act and the applied provisions are to be read as forming part of this Act.

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SCHEDULE 1—AMENDMENTS—continued

(4) Section 131 (Cancellation of membership prohibited in certain circumstances):

- (a) Omit section 131 (a), insert instead:
 - (a) if the co-operative is under administration under Part 5.3A of the Corporations Law as applying under this Act; or
- (b) In section 131 (d), after "receiver", insert "(whether or not a receiver and manager)".
- 10 (5) Section 202 (Convening of general meeting on requisition): From section 202 (1) (b), omit "5%", insert instead "20%".

(6) Section 218 (Removal from and vacation of office):

- (a) In section 218 (2) (b), after "himself", insert "or herself".
- (b) Omit section 218 (2) (c), insert instead:
 - (c) if the director resigns the office of director by notice in writing given by the director to the co-operative;
- (7) Section 220 (Meaning of "officer"):

Omit paragraph (d) of the definition of "officer" in section 220, insert instead:

- (d) an administrator of the co-operative appointed under Part 5.3A of the Corporations Law as applying under this Act; or
- (8) Section 229 (Adoption of Corporations Law provisions concerning officers of co-operatives):
 - At the end of section 229 (2), insert:
 - ; and
 - (d) the reference in section 592 to the commencement of Part 5.7B were a reference to the commencement of section 343B of this Act.

30 (9) Section 252 (**Returns**):

From section 252 omit "at least 14 days before each annual general meeting of the co-operative is held", insert instead "within 4 months after the close of the financial year of the co-operative".

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SCHEDULE 1—AMENDMENTS—continued

(10) Section 263 (Fund raising to be in accordance with Act and regulations):

- (a) Omit section 263 (1) and (2), insert instead:
 - (1) The regulations may impose requirements and restrictions on the obtaining of financial accommodation and the giving of security in connection with the obtaining of financial accommodation by a co-operative.

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- (b) In section 263 (3), omit "the provisions of this or any other section of this Act", insert instead "any provision of this Act 10 or the regulations".
- (11) Section 266 (Application of Corporations Law to issues of debentures):
 - (a) Omit section 266 (1) and (2), insert instead:

(1) The provisions of Parts 7.11 (Conduct in relation to securities) and 7.12 (Offering securities for subscription or purchase) of the Corporations Law apply to and in respect of debentures of a co-operative, subject to the following:

- (a) for the purposes of the application of those provisions, a co-operative is considered to be a company and the term "corporation" is considered to include a co-operative;
- (b) references in those provisions to the Commission are to be read as references to the Registrar;
- (c) the provisions apply with such modifications as may be 25 prescribed.

(2) The provisions of the Corporations Law applied by this section do not apply to a loan to which section 268 (Compulsory loan by member to co-operative) applies.

(b) In section 266 (4), after "section", insert "which are not 30 defined in this Act".

(12) Section 268 (Compulsory loan by member to co-operative):

(a) Omit section 268 (1), insert instead:

(1) A co-operative may require its members to lend money, with or without security, to the co-operative, but only if the rules of the co-operative permit the co-operative to do so and only in accordance with a proposal approved by a special resolution of the co-operative.

SCHEDULE 1—AMENDMENTS—continued

- (b) Omit section 268 (5), insert instead:
 - (5) The proposal must:
 - (a) be accompanied by a disclosure statement, approved by the Registrar, that explains the purpose for which the money raised by the co-operative pursuant to the proposal is to be used; and
 - (b) clearly show the total amount of the loan to be raised by the co-operative and the basis on which the money required to be lent by each member is to be calculated.
- (13) Section 269A:

After section 269, insert:

Priority of CCU's on winding up

269A. (1) On a winding up of a co-operative, a debt owed to a person as the holder or former holder of a CCU issued by the co-operative is to rank for priority of payment in accordance with the terms of issue of the CCU.

(2) Such a debt may rank as a secured debt if it is secured but if it is unsecured may not rank in priority to other unsecured debts. It may rank equally with or behind unsecured debts and (if the debt ranks behind unsecured debts) may rank in priority to, equally with or behind debts due to contributories.

(14) Section 273 (CCU's not to be issued unless terms of issue etc. approved by Registrar):

Omit section 273 (2), insert instead:

(2) The terms of issue must specify the following (but this subsection does not limit the contents of the terms of issue):

- (a) details of entitlement to repayment of capital;
- (b) details of entitlement to participate in surplus assets and profits;
- (c) details of entitlement to interest on capital (whether cumulative or non-cumulative interest);
- (d) details of how capital and interest on capital are to rank for priority of payment on a winding up.

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Co-operatives (Amendment) 1994

SCHEDULE 1—AMENDMENTS—continued

(15) Section 325 (Application of Corporations Law to winding up):

- (a) From section 325 (3) (c), omit "together with the amount of the contingent liability, if any, attached thereto, and".
- (b) After section 325 (3), insert:

(4) The provisions of the Corporations Law applied by this section are to be read subject to sections 76 (Liability of members to co-operative) and 331 (Liability of member to contribute in a winding up where shares forfeited etc.) for the purposes of determining the liability of members and past members to contribute on a winding up of a co-operative.

(16) Part 12, Division 5:

Omit the Division, insert instead:

Division 5—Administration of co-operative application of Corporations Law

Adoption of Part 5.3A of Corporations Law

332. (1) The provisions of Part 5.3A (Administration of a company's affairs with a view to executing a deed of company arrangement) and Division 3 (Provisions applying to various kinds of external administration) of Part 5.9 of the Corporations Law apply to and in respect of a co-operative as if it were a company.

(2) Those provisions so apply with the following modifications:

- (a) those provisions are to be read as including the 25 provisions of section 332A of this Act;
- (b) references in those provisions to an administrator appointed under a provision of Part 5.3A are to be read as including a reference to an administrator appointed by the Registrar under the provision included by paragraph (a);
- (c) references in those provisions to the Commission are to be read as references to the Registrar;
- (d) such other modifications as may be prescribed.

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SCHEDULE 1—AMENDMENTS—continued

Appointment of administrator by Registrar

332A. (1) The Registrar may, after an inquiry into the affairs of a co-operative under Division 2 or 4 of Part 14, appoint a person as an administrator for the purposes of the provisions of Part 5.3A of the Corporations Law as applying under section 332 if the Registrar is of the opinion that the co-operative is insolvent or likely to become insolvent at some future time.

(2) The person appointed by the Registrar need not be a registered liquidator.

(17) Sections 343A-343B:

After section 343, insert:

Adoption of Corporations Law concerning reciprocity with other jurisdictions

343A. (1) The provisions of Part 5.7A (Reciprocity with other jurisdictions) of the Corporations Law apply to and in respect of a co-operative in the same way as they apply to and in respect of a company.

(2) Those provisions so apply with such modifications as may be prescribed and as if:

- (a) a reference in those provisions to a recognised company were a reference to a foreign co-operative; and
- (b) a reference to a provision of the Corporations Law of another jurisdiction were a reference to that provision as applying to a foreign co-operative under a law of another jurisdiction under which that foreign co-operative is incorporated.

Adoption of Corporations Law concerning insolvent co-operatives

343B. (1) The provisions of Part 5.7B (Recovering property or compensation for the benefit of creditors of insolvent company) of the Corporations Law apply to and in respect of a co-operative in the same way as they apply to and in respect of a company.

(2) Those provisions so apply with such modifications as may be prescribed.

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SCHEDULE 1—AMENDMENTS—continued

(18) Section 383 (Privilege):

Omit section 383 (3), insert instead:

(3) The legal practitioner is also not entitled to refuse to comply with the requirement if the person by or on behalf of whom the communication was made or (if the person is under administration under Part 5.3A of the Corporations Law, as applying under this Act, or in the course of being wound up) the administrator or the liquidator agrees to the legal practitioner complying with the requirement.

(19) Section 389 (Privilege):

Omit section 389 (2), insert instead:

(2) The legal practitioner is not entitled to refuse to produce the document if the person by or on behalf of whom the communication was made or (if the person is under administration under Part 5.3A of the Corporations Law, as applying under this Act, or in the course of being wound up) the administrator or the liquidator agrees to the legal practitioner producing the document.

(20) Section 421 (Certificate evidence):

After section 421 (1), insert:

(1A) The Registrar may issue a certificate stating that a requirement of this Act specified in the certificate:

- (a) had, or had not, been complied with at a date or within a period specified in the certificate; or
- (b) had been complied with at a date specified in the certificate but not before that date.

(21) Section 436 (Interpretation of applied provisions of Corporations Law):

After section 436 (3), insert:

(3A) Provisions of the Corporations Law applied by or under this Act apply and are to be interpreted as if the definitions of words and expressions and other interpretative provisions contained in the Corporations Law formed part of this Act. 10

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SCHEDULE 1—AMENDMENTS—continued

(22) Sections 436A, 436B:

After section 436, insert:

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Implied application of regulations and other provisions of Corporations Law

436A. (1) When a provision of this Act or the regulations applies a provision ("the applied provision") of the Corporations Law to co-operatives, the following provisions are also applied by force of this section and are to be read as forming part of this Act:

- (a) the provisions of any regulation (an "applied regulation") for the time being in force under the applied provision;
- (b) any provision of the Corporations Law that creates an offence in relation to a contravention of the applied provision;
- (c) the provisions of Part 9.4B (Civil and criminal consequences of contravening civil penalty provisions) of the Corporations Law for the purposes of any provision of the Corporations Law applied by this Act that is a civil penalty provision within the meaning of that Part.

(2) The regulations under this Act may prescribe modifications to any of the provisions applied by subsection (1) for the purposes of their application under this section, and those provisions apply subject to any such prescribed modifications.

(3) If a provision of the Corporations Law or the regulations under that Law applying under this Act (including under this section) creates an offence and the penalty for that offence is specified in another provision ("the penalty provision") of the Corporations Law or those regulations, the penalty provision is to be read as forming part of this Act for the purpose of determining the maximum penalty applicable to that offence.

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SCHEDULE 1—AMENDMENTS—continued

Effect of amendments to applied provisions of Corporations Law

436B. (1) A provision of the Corporations Law that is applied by or under a provision of this Act so applies as in force from time to time.

(2) If a group of provisions of the Corporations Law is applied by or under a provision of this Act (whether by application of a Part or other division of the Corporations Law or otherwise), and the Corporations Law is amended so as to insert new provisions in that group of provisions, the new provisions form part of the group of provisions so applied.

(23) Schedule 1 (Matters for which rules must make provision): Omit the fifth dot point in clause 1.

(24) Schedule 3 (**Registration etc. of charges**):

- (a) Omit clause 7 (1) (b) and (3) (b), insert instead:
 - (b) an administrator of a co-operative is appointed under Part 5.3A of the Corporations Law as applying under this Act; or
 - (ba) a co-operative executes a deed of arrangement,
- (b) From clause 7 (1), omit "or official manager", insert instead ", the administrator of the co-operative, or the deed's administrator".
- (c) From clause 7 (1) (c) (ii) and (3) (c) (ii), omit "commencement of the winding up or the appointment of the official manager, as the case may be" wherever occurring, insert instead "critical day".
- (d) From clause 7 (1) (d) and (e), omit "commencement of the winding up or at the time of the appointment referred to in paragraph (b)" wherever occurring, insert instead "start of the critical day".
- (e) From clause 7 (3) (d), omit "commencement of the winding up or at the time of the appointment of the official manager", insert instead "start of the critical day".

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SCHEDULE 1—AMENDMENTS—continued

- (f) From clause 7 (5), omit "official manager of the co-operative, notwithstanding that", insert instead "administrator of the co-operative, or an administrator of a deed of arrangement executed by the co-operative, even if".
- (g) Omit clause 7 (6) (c), insert instead:
 - (c) an administrator of the co-operative being appointed under Part 5.3A of the Corporations Law as applying under this Act; or
 - (d) the co-operative executing a deed of arrangement.
- (h) From clause 7 (7), omit "and (c)", insert instead ", (c) and (d)".
- (i) After clause 7 (7), insert:
 - (8) In this clause:

"critical day", in relation to a co-operative, means:

- (a) if the co-operative is being wound up—the day when the winding up began; or
- (b) if the co-operative is under administration—the relevant day in relation to the administration; or
- (c) if the co-operative has executed a deed of arrangement—the relevant day in relation to the administration that ended when the deed was executed;
- "deed of arrangement" means a deed of arrangement executed under Part 5.3A of the Corporations Law as applying under this Act or such a deed as varied and in force from time to time;
- "relevant day", in relation to the administration of a co-operative, means:
 - (a) if, when the administration began, a winding up of the co-operative was in progress—the day on which the winding up is taken because of Division 1A of Part 5.6 of the Corporations Law (as applying under this Act) to have begun; or
 - (b) otherwise—the day on which the administration began.

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SCHEDULE 1—AMENDMENTS—continued	
(25) Schedule 4 (Receivers and managers):	
(a) In clause 1, insert in alphabetical order:	
"administrator" means an administrator appointed under Part 5.3A of the Corporations Law as applying under this Act;	5
(b) From clause 10 (1) and (4), omit "the official manager" wherever occurring, insert instead "the administrator".	
(26) Schedule 6 (Savings and transitional provisions):	
(a) Before clause 1, insert:	10
PART 1—GENERAL	
(b) From clause 2 (1), omit "this Act.", insert instead:	
the following Acts:	
this Act	
Co-operatives (Amendment) Act 1994	15
(c) From clause 2 (2), omit "this Act", insert instead "the Act concerned".	
(d) Before clause 3, insert:	
PART 2—PROVISIONS RELATING TO THE 1923 ACT	20
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(e) After clause 3, insert:	
Societies wound up or dissolved under the 1923 Act 3A. A society wound up, dissolved or struck off the register under the 1923 Act (other than a society exempt from clause 4) is taken to have been wound up, dissolved or struck off the register under this Act.	25
(f) After clause 13, insert:	
PART 3—PROVISIONS CONSEQUENT ON THE CO-OPERATIVES (AMENDMENT) ACT 1994	
Convening of general meeting on requisition	30
14. The amendment to section 202 made by the Co-operatives (Amendment) Act 1994 does not apply in respect of a requisition for a general meeting served on a co-operative before the commencement of that amendment.	

SCHEDULE 1—AMENDMENTS—continued

Vacation in office of director

15. The amendment to section 218 made by the Co-operatives (Amendment) Act 1994 does not apply in respect of a notice in writing of a director's intention to resign office given by the director to the board of the co-operative before the commencement of that amendment.

Operation of amendment to Corporations Law

16. The amendment to section 229 made by the Co-operatives (Amendment) Act 1994 is taken to have commenced immediately before the commencement of Part 5.7B of the Corporations Law.

Official management

17. (1) Section 332 of this Act (as in force immediately before its replacement by the Co-operatives (Amendment) Act 1994) continues to apply to and in respect of the official management of a co-operative under Part 5.3 of the Corporations Law that commenced before the replacement of that section.

(2) A reference in this Act to an administrator, or to administration, under Part 5.3A of the Corporations Law includes a reference to an official manager or deputy official manager, or to official management, under Part 5.3 of that Law.

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